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ORIGIN INR-10

INFO OCT-01 AF-10 ARA-10 EUR-12 NEA-10 IO-13 ISO-00
SSM-03 SIG-03 CIAE-00 NSAE-00 PM-05 /077 R

DRAFTED BY INR/RNA/NE:AAVACCARO:JVW
APPROVED BY INR/RNA: PJGRIFFIN
SSM: C W KONTOS
DESIRED DISTRIBUTION
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E.O. 11652: XGDS-2

TAGS: EG, IS, PINR

SUBJECT: INTSUM 614 - JULY 26, 1978

LONDON FOR KINSOLVING
PARIS FOR NICHOLAS MURPHY
OTHER ADDRESSEES FOR CHIEFS OF MISSION

1. ISRAEL. INDUSTRY AND COMMERCE MINISTER HOROWITZ YESTERDAY WITHDREW HIS THREAT TO RESIGN FOLLOWING A COMPROMISE ARRANGED BY PRIME MINISTER BEGIN THAT APPARENTLY PROVIDES FOR SOME OF THE BUDGETARY CUTS HOROWITZ WANTS. HOROWITZ' GRIEVANCES REFLECT DIFFERENCES OVER ECONOMIC POLICY AMONG THE FACTIONS OF BEGIN'S RULING LIKUD BLOC.

2. HOROWITZ AND MANY OTHERS IN LIKUD REGARD THE SUPPLEMENTARY BUDGET THAT WAS APPROVED EARLIER THIS WEEK ON FINANCE MINISTER EHRLICH'S RECOMMENDATION AS A POLITICALLY DANGEROUS THROWBACK TO UNPOPULAR LABOR PARTY PRACTICES. LABOR-LED GOVERNMENTS OFTEN TRIED TO TRADE POLITICALLY ON DELIBERATELY UNDERSTATED BUDGETS.

3. SUCH BUDGETS USUALLY HAD TO BE ENLARGED LATER BY PASSAGE OF SUPPLEMENTARY CREDITS THAT IN TURN FUELED ISRAEL'S SPIRALING INFLATION RATE, WHICH LAST YEAR APPROACHED 40 PERCENT. DURING THE 1977 ELECTION CAMPAIGN,
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LIKUD SPOKESMEN MADE LABOR'S MISMANAGEMENT OF THE ECONOMY A MAJOR ISSUE AND EMPHASIZED LIKUD'S COMMITMENT TO CONTROLLING THE BUDGET AND REDUCING INFLATION.

4. HOROWITZ AND MANY OF HIS COLLEAGUES IN LIKUD'S SMALL LAAM FACTION WANT A SMALLER AND MORE EFFICIENTLY MANAGED BUDGET AND A CLEAR BREAK WITH LABOR'S SOCIALIST ECONOMIC OUTLOOK. HOROWITZ RESENTS THE SUBORDINATION OF HIS PORTFOLIO TO THE OVERALL BUDGETARY GUIDELINES ESTABLISHED BY EHRLICH FOR ALL CABINET POSTS DEALING WITH ECONOMIC MATTERS. HOROWITZ, WHEN HE WITHDREW HIS RESIGNATION, SAID THAT HE INTENDS TO PLAY A MORE ACTIVE ROLE IN ECONOMIC POLICYMAKING.

5. THE LIKUD-LED COALITION GOVERNMENT ESTABLISHED BY MENAHEM BEGIN AFTER THE MAY 1977 KNESSET ELECTION CELEBRATED ITS FIRST ANNIVERSARY ON JUNE 21. ALTHOUGH THE STABILITY OF THE COALITION HAS BEEN THE SUBJECT OF RECURRENT BOUTS OF PRESS AND POLITICAL SPECULATION, THE FACT IS THAT IT HAS SURVIVED SIGNIFICANT STRESSES AND STRAINS.

6. THE COALITION'S SURVIVAL IS NOTEWORTHY FOR SEVERAL

REASONS:

(A) THE LIKUD, AND ITS PREDOMINANT ELEMENT, HERUT, HAD NEVER BEFORE HELD POWER. LONGTIME HERUT LEADER BEGIN HAD BEEN IN THE OPPOSITION FOR 29 YEARS. PRIOR TO THE INAUGURATION OF THE COALITION, THERE HAD BEEN SERIOUS DOUBTS ABOUT BEGIN'S ABILITY TO GOVERN.

(B) SINCE THE COLLAPSE OF DIRECT NEGOTIATIONS WITH EGYPT, THE LIKUD-LED COALITION HAS SURVIVED DRAMATIC DEVELOPMENTS ON THE ARAB-ISRAEL FRONT, AS WELL AS A DETERIORATION IN US-ISRAEL RELATIONS AND HEAVY DOMESTIC CRITICISM OF BEGIN'S FOREIGN POLICY COURSE.

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(C) THE LIKUD HAS MANAGED TO CONTAIN STRAINS BETWEEN ITS HERUT AND LIBERAL COMPONENTS OVER A LIBERAL-DOMINATED ECONOMIC POLICY DISADVANTAGEOUS TO HERUT'S ORIENTAL SUPPORTERS.

(D) THE COALITION HAS FUNCTIONED DESPITE SHARP ANTAGONISM BETWEEN THE ORTHODOX PARTIES AND MILITANT SECULARISTS WITHIN THE DEMOCRATIC MOVEMENT FOR CHANGE (DMC) AND THE LIBERAL PARTY.

7. THERE ARE FOUR PRINCIPAL SOURCES OF TENSION AND CONFLICT WITHIN THE COALITION:

(A) DIFFERENCES OVER FOREIGN AND SETTLEMENTS POLICY;

(B) DIFFERENCES OVER ECONOMIC POLICY:

(C) DIFFERENCES OVER RELIGIOUS POLICY:

(D) PERSONAL AND POLITICAL ANTAGONISMS AND RIVALRIES GENERATED BY THE SUCCESSION STRUGGLE.

THE ABILITY OF THE COALITION TO REMAIN IN OFFICE WILL TURN UPON ITS ABILITY TO CONTAIN THE BASICALLY INSOLUBLE DIFFERENCES THAT DIVIDE ITS COMPONENTS. IN THIS CONTEXT, IT SHOULD BE NOTED THAT THE PERSISTENCE OF UNRESOLVABLE DIFFERENCES ON FUNDAMENTAL ISSUES DID NOT PREVENT EARLIER, LABOR-LED COALITIONS FROM CONTINUING IN OFFICE FOR MANY YEARS.

8. DIFFERENCES OVER FOREIGN POLICY CONSTITUTE THE POTENTIAL ACHILLES HEEL OF THE COALITION. DIFFERENCES OVER THE ROLE OF RELIGION IN THE STATE, WHILE EVEN MORE FUNDA-
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MENTAL, ARE NOT LIKELY TO PRODUCE MAJOR POLITICAL AND COALITIONAL REALIGNMENTS IN THE NEAR FUTURE. BEGIN, AND ANY LIKUD SUCCESSOR, WILL DO WHATEVER IS NECESSARY TO RETAIN THE ALLEGIANCE OF THE RELIGIOUS PARTIES. WHILE THIS WILL BE EASIER FOR BEGIN THAN FOR A SUCCESSOR, GIVEN THE FORMER'S PRO-RELIGIOUS STYLE AND STANCE, EVEN A NONRELIGIOUS SUCCESSOR WOULD EXERCISE CARE TO AVOID OFFENDING THE ORTHODOX PARTIES. WITH THEIR SUPPORT, THE LIKUD CAN RETAIN POWER INDEFINITELY; WITHOUT THEIR SUPPORT, IT WOULD BE UNABLE UNDER MOST CONCEIVABLE CIRCUMSTANCES TO REMAIN IN OFFICE.

9. TWO POSSIBLE POLITICAL DEVELOPMENTS AFFECTING THE COMPOSITION AND STRUCTURE OF THE COALITION ARE CURRENTLY BEING MOOTED. ONE INVOLVES THE DMC; THE OTHER, THE LA'AM FACTION OF THE LIKUD. THE DMC, SHARPLY RIVEN BY POLICY DIFFERENCES, PERSONALITY CLASHES, AND THE DECLINE IN YADIN'S PRESTIGE MIGHT SPLIT, WITH ONE COMPONENT OF THE PARTY LEAVING THE COALITION AND ANOTHER REMAINING WITHIN IT. THERE HAS BEEN SPECULATION THAT SOME OF THOSE FROM THE DMC WHO CONTINUE TO SUPPORT THE COALITION MIGHT SEEK TO JOIN THE LIKUD, EITHER AS A SEPARATE FACTION OR BY JOINING HERUT. A SPLIT IN THE DMC WOULD REDUCE THE GOVERNMENT'S MARGIN IN THE KNESSET BUT WOULD NOT IMPERIL ITS

SURVIVAL OR DAMAGE ITS ABILITY TO RULE. THE WITHDRAWAL OF THE ENTIRE PARTY WOULD SHRINK THE GOVERNMENT'S KNESSET MAJORITY DRASTICALLY (FROM 18 TO 3). THIS WOULD PLACE BEGIN AT THE MERCY OF THE RELIGIOUS PARTIES.

10. FERMENT WITHIN LA'AM SUGGESTS THE POSSIBILITY OF A SPLIT BETWEEN ITS TWO PRINCIPAL COMPONENTS. SUCH A SPLIT WOULD BE RELATED TO THE SUCCESSION STRUGGLE. FOREIGN MINISTER DAYAN'S SUPPORTERS WITHIN LA'AM MIGHT ORGANIZE A NEW PARTY TO BOLSTER DAYAN'S POLITICAL POSITION. THE POLITICAL SIGNIFICANCE OF SUCH A MOVE WOULD BE LIMITED,

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UNLESS DAYAN WERE PREPARED TO GO INTO OPPOSITION. IN THIS CASE THE COALITION MIGHT FALL -- PROVIDED THAT THE DMC ALSO WENT INTO THE OPPOSITION. A RECONSTITUTION OF THE COALITION, OR NEW ELECTIONS, COULD FOLLOW. (SECRET)

11. JORDAN. KING HUSSEIN'S RECENT VISIT TO DAMASCUS CLEARLY SIGNALS HIS INTEREST IN RECONCILING DIFFERENCES

WITH THE SYRIANS. ANY JORDANIAN MOVE IN THE DIRECTION OF DAMASCUS FURTHER DIMINISHES THE PROSPECTS OF AMMAN'S ENTRY INTO THE PEACE NEGOTIATIONS.

12. THE KING'S DECISION TO MEET WITH ASSAD SHORTLY AFTER RETURNING FROM LONDON SEEMS TO REFLECT THREE INTERSECTING POLICY ASSUMPTIONS IN AMMAN:

(A) JORDAN'S MIDDLE-OF-THE-ROAD POSTURE WITH REGARD TO THE EGYPTIAN-SYRIAN SPLIT IS BECOMING INCREASINGLY UNTENABLE;

(B) THE SADAT INITIATIVE IS A FAILURE AND SHOULD BE WRITTEN OFF; AND

(C) JORDAN SHOULD POSITION ITSELF TO WITHSTAND ANY ESCALATION OF TENSIONS WHICH MIGHT ACCOMPANY ANTICIPATED DIPLOMATIC OR MILITARY MOVES BY EITHER EGYPT OR ISRAEL.

13. THE SYRIANS, FOR THEIR PART, SEEM PLEASED THAT AMMAN IS ONCE AGAIN LOOKING TO DAMASCUS TO PROVIDE A SENSE OF POLITICAL DIRECTION. ANY HUSSEIN RECONCILIATION WITH DAMASCUS WILL FURTHER ANNOY SADAT. DESPITE AN ANNOUNCEMENT IN THE CAIRO PRESS THAT HUSSEIN PLANNED TO MEET WITH SADAT THIS WEEK IN EGYPT, THE KING APPARENTLY CALCULATES THAT
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KAMEL'S ARRIVAL TODAY TO BRIEF JORDANIAN OFFICIALS ON THE LONDON TALKS CONSTITUTES SUFFICIENT CONTACT WITH THE EGYPTIANS FOR THE TIME BEING. (CONFIDENTIAL) CHRISTOPHER

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: POLITICAL SUMMARIES, INTELLIGENCE ASSESSMENTS
Control Number: n/a
Copy: SINGLE
Draft Date: 26 jul 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978STATE188855
Document Source: CORE
Document Unique ID: 00
Drafter: AAVACCARO:JVW
Enclosure: n/a
Executive Order: X2
Errors: N/A
Expiration:
Film Number: D780307-0144
Format: TEL
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780718/aaaaaoqm.tel
Line Count: 259
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: b9f0576c-c288-dd11-92da-001cc4696bcc
Office: ORIGIN INR
Original Classification: SECRET
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: SECRET
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 03 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1877322
Secure: OPEN
Status: NATIVE
Subject: INTSUM 614 - JULY 26, 1978 LONDON FOR KINSOLVING PARIS FOR NICHOLAS MURPHY
TAGS: PINR, EG, IS, XF
To: SINAI
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/b9f0576c-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014